EXHIBIT "Z"

IN THE UNITED STATES BANKRUPTCY COURT
FOR THE NORTHERN DISTRICT OF TEXAS
DALLAS DIVISION

IN RE:)
) BK. NO: 01-35327-SAF-11
AMRESCO, INC.)
)
D E B T O R)

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TRANSCRIPT OF PROCEEDINGS

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(Court's Ruling)

BE IT REMEMBERED, that on the 7th day of September, 2001, before the HONORABLE STEVEN FELSENTHAL, United States Bankruptcy Judge at Dallas, Texas, the above styled and numbered cause came on for hearing, and the following constitutes the transcript of such proceedings as hereinafter set forth.

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THE COURT: Okay. This will be the Court's bench ruling on the motion of Financial Acquisition Partners, L.P., for the Court to order the appointment of an equity securities holders committee. The Prescott Group joined in that motion. The SEC supports the motion. At the hearing on September 5, one other shareholder appeared to support the motion. The debtors and the committee o unsecured creditors oppose the motion.

The Court held an evidentiary hearing on the motion on September 5, 2001, and continued it to completion today. The determination of a motion under Section 1102 for the appointment of an equity security holders committee is a core matter over which this Court has jurisdiction to enter a final order.

The Court, on contested matters, is required to make findings of facts and conclusions o law. The parties should understand that this statement from the bench constitutes the Court's findings and conclusions, but because it's a bench ruling, the Court reserves the opportunity to edit o amend or supplement these findings for purposes of clarity and completeness.

Financial Acquisition Partners, L.P., which is known as FALP, had requested that the U.S. Trustee appoint a committee of equity security holders. The United States Trustee had declined to do so, and the U.S. Trustee has taken no position on this motion, basically deferring to the discretion of the Court.

Under Section 1102 of the Bankruptcy Code, request of a party in interest, the Court may order the appointment of a committee of equity security holders if necessary to assure the adequate representation of the equity security holders. Under the statute, the Court must determine if a committee is necessary to assure adequate representation of equity security holders, and if so, the Court must further determine whether to exercise its discretion to order the appointment of a committee.

The Wang case discusses this at Section 149 B.R., page 1 and page 2. The Code does not define adequate representation. Adequate representation must be determined by the facts of the particular case. To make that determination, and then to exercise its discretion, the Court should consider the following factors: One, the number of shareholders; two, the complexity of the case; three

whether the cost of the committee would significantly outweigh the concerns for adequate representation; four, the solvency of the debtor; five, the ability or the appearance of the management shareholders to represent the non-management shareholders; six, the integrity of the bankruptcy process; seven, the Congressional intent to protect public shareholders by providing for a negotiating body for shareholders for the formulation of a plan; and eight, the impact on the reorganization process.

These guidelines and factors have been enunciated in a series of cases that include the Wang case, the Beker Industries Case at 55 B.R. 945, the Edison Brothers case out of Delaware which apparently is available only on Westlaw and Lexis, and the Imperial Distributing case, another Delaware case which apparently has not been published. The memorandum order was filed May 15th, 2001. And also Colliers discusses some of these factors.

Amresco had publicly traded common shares of stock, about 2.6 million shares. At the time of the bankruptcy petition, there were about 2,500 holders of record, and actually that number may date from March 31, 2001, but there are approximately 2,500 holders of record. There were about 12,000

beneficial owners. I believe the officers and directors held about 5 percent of the stock, and the trading of the stock was indeed delisted in July.

The case has been designated as a complex Chapter 11 case for purposes of the procedures adopted by this Court. But neither the debt structure nor the equity structure is especially or unusually complicated. It is a large case, but it's not a mega-case. However, the debtor does conduct its business through a multi-level subsidiary structure with two non-debtor subsidiaries operating at a profit; and, therefore, the Court considers the case complex because of the size of the assets and the amount of the debt that had been publicly traded, the public trading of the stock and the structure of the business, but not because of the structure of the debt or the equity alone.

The management shareholders may generally perform their fiduciary duties, but they cannot adequately represent the interests of nonmanagement shareholders. With the filing of the petition, the debtors filed a motion to sell its assets and those of its subsidiaries to NCS. The sale proposal holds a prospect of employment for management that may be more lucrative than any

returns that they may receive on the stock. While they may legitimately believe and they may ultimately establish in the case that the sale will be in the best interest of the estate, they cannot advocate a plan on behalf of the shareholders.

Mr. Brown, the debtor's CEO, Mr. Robbins, the debtor's financial advisor, and Mr. Cleveland, the creditors' committee's financial advisor, all testified that the debtor was insolvent on the petition date. Adjusting book values as of June 30, 2001, for market factors and a fair market value basis, the testimony was that the debtor is insolvent by a range of between $97 million and $250 million. At the NCS sale proposal values, Mr. Cleveland is projecting a return to unsecured creditors of somewhere between 34 to 41 cents on the dollar which would leave no prospect for a shareholder recovery unless the debtor's assets could be sold for an additional approximately $200 million. But all three of those witnesses recognized and hoped that the NCS offer was a floor, and that the sale process would generate more than is currently on the table.

PALP did not present contradictory evidence, but instead contended that it would be

premature to adjudicate asset value and thereby affect the sales of assets or the negotiation, formulation, and confirmation of a plan. For purposes of this motion, the evidence reflects the debtor is insolvent, ~~and the Court notes~~ parenthetically, that under the Bankruptcy Code, the Court is often called on to value a debtor and its assets for particular purposes during the course of a bankruptcy case. So the determination for this motion is not binding on a subsequent determination.

The finding of insolvency for this motion, though, does lead the Court into the integrity of the process argument that FALP has advanced and that the Delaware court discussed in the Imperial Distributing case. And actually we have discussed in argument whether this Court recognized it in the Southmark case the March 31, 2001, 10-Q publicly reported an equity value of $154 million.

During a proxy contest initiated by FALP in the spring of 2001, Amresco issued a public press release on May 14th, 2001, confirming that value while recognizing the volatility and the timing of securitizations and working with its financial advisors to maximize shareholder value. On July 2, 2001, Amresco filed its petition for relief under

Chapter 11 of the Bankruptcy Code. The petition reported equity value. Not until the filing of its schedules and statement of financial affairs did Amresco publicly state its insolvency.

Thus as a matter of public disclosure in the months prior to the bankruptcy petition and continuing until the filings of the schedules after the bankruptcy, Amresco publicly reported shareholde: value. The stock supposedly traded for some value, albeit rather small, it was still trading for value, even though the bonds during the 12 months prior to bankruptcy were only trading at a 40 to 60 percent range.

Amresco contends, however, that the public filings including the 10-Q and the bankruptcy petition reported book values. And all the witnesse: agreed that book value did not necessarily equate to market value. Depending on the circumstances, they testified the book value may be more or less than market value. Mr. Brown, Mr. Robbins and Mr. Cleveland testified that indeed the market value for Amresco is less than the book value. They also testified to developments of Amresco's business that required write downs of the book value on June 30th, and actually testified as to continuing developments

that may increase liabilities. The Court has no evidence that from March 31, 2001, until the filing of the schedules, that Amresco ever publicly disclosed or reported that its book values were greater than its market value, or that business events were actually occurring that would require write downs of book values in the next quarterly statement. Amresco did not state in its public disclosures that the public should not rely on its book values because they did not accurately reflect but rather inflated Amresco's market value.

On May 8, 2001, in the proxy materials, Amresco did publicly identify the risks that without a warehouse line that the stock value would be lost. But, at the same time, it reported that they had a strategic plan that would avoid that situation, and indeed, they did have a strategic plan at that time. Thus Amresco provided no meaningful warning to its investors of the write downs or the unreliability of the book values in the days immediately proceeding the bankruptcy case.

Whether this was proper or not, Amrescc concedes that it filed no disclosure of its material business matters with the SEC and issued no press release until it filed the schedules. There was alsc

testimony that Amresco did not disclose or suggest that it would have to make a bankruptcy filing. The Court does not consider the FBR report as a report of Amresco. So even though it discussed risks, it was not Amresco making public statements of those risks.

Consequently, and based on this record, the public markets knew only that Amresco reported shareholder value from March 31, 2001, until after the bankruptcy petition, but now Amresco reports that it's insolvent. The Court agrees with FALP that the integrity of the bankruptcy process dictates that shareholders receive an explanation of what happened and determine whether they have value to be realized, any causes of action to pursue or any plans or strategies to negotiate.

The appearances of a fair bankruptcy process is compounded by: One, the immediate motion to sell the assets; two, the 5 to $6 million loans made to management on the eve of bankruptcy; and, three, the prospect of employment for management with the proposed sale to NCS.

FALP is not willing and may not be able to represent the other shareholders in this case. No other shareholder has stepped forward to carry that representation. The Code contemplates that a

statutory committee may be the only effective means of representing shareholders. The creditors' committee is analyzing some of these issues, including the loans and the prospective employment and the employee benefits, and is analyzing, as is the debtor, a stand alone plan and other options to a sale at auction of the assets of the debtor. But the committee's financial advisors have concluded that equity is completely out of the money, so obviously, the committee will not be adequately representing the equity holders.

The appointment of an equity committee will increase the costs of the administration of the bankruptcy case. The committee must investigate the pre-petition public valuation of the debtor and endeavor to determine the actual value of the debtor at the present time, and has to try to determine what its recovery prospects are, if there's value they can bring to the estate, or any cause of action, if any, that they should claim as theirs. The appointment of an equity committee will increase the difficulty for other parties in interest to pursue their objections in the case. But assuming that the debtor is indeed insolvent and that its pre-petition public disclosures were proper, and even assuming a return

to unsecured creditors in the 34 to 41 percent range, a bankruptcy case is about more than the return to creditors and the reorganization or sale of the debtor. The bankruptcy case is also about the fair and equitable adjustment or elimination of claims anc equity.

The debtor and the unsecured creditors committee contend that equity is out of the money even though Amresco had reported value until it filec its schedules. They argue that there's nothing for equity to represent. But under the facts and circumstances of this case, acceptance of that position as a legitimate result of a bankruptcy process compels that equity have a formal statutory voice in assessing the correctness and appropriateness of that result. The integrity of the process dictates that the estate spend reasonable costs for equity to formally have a negotiating voice if this case could result in the elimination of hundreds of thousands of dollars in equity investments in the debtor even with the pre-petition disclosure of value. The process must not only be fair, it must seem fair. And to meet that standard under the facts and circumstances of this case, the estate must incur some reasonable administrative

expenses.

As I stated during the closing arguments, I did try to go back to where this Court had presided over or had cases with equity committees to determine if there was any precedent that I should draw on. I mentioned the Southmark case. Obviously, Southmark was a case of a completely different magnitude, but there's a similarity in this respect. Several months prior to the bankruptcy petition Southmark publicly reported that it had considerable value for the shareholders. On the eve of its petition, it took a $1 billion write down, and that write down eliminated all value for equity. The Court recognized that equity needed to have a committee, even though it came at a significant cost to the estate, to adequately represent equity under those circumstances.

We discussed in closing arguments the NeoStar case, and I went back to look at the motion that was filed for the appointment of an equity committee in NeoStar. The motion reports that in the months proceeding the bankrutpcy petition, NeoStar reported equity value while post-petition the company incurred substantial administrative debt. As the U.S. Trustee pointed out, the company barely cleared

its administrative expenses and paid its secured creditor. There had been an ad hoc group of shareholders and they had moved for the appointment of an equity committee. Before the Court could consider the motion, the U.S. Trustee had appointed the committee. As Mr. McElreath reported today, that had more to do with the functioning of the creditors' committee at the time than with the position of equity. But, nevertheless, the result in the immediate time after the appointment of a committee was that there was a formal structured committee to try to determine what happened to the public report of value in the weeks and months immediately proceeding the bankruptcy, and it turned out, indeed, there wasn't value, that the debtor's post-petition position was correct, and the committee lasted a short time. And as quickly as I could determine during the recess, I think they were out of existence in about six weeks. But they at least satisfied themselves as to the legitimacy of the process before the Court.

In those cases in this court ranging from the largest and most complex of cases to a case more akin in size to this case the debtors had reported with pre-petition public disclosure, value

for shareholders that appeared to have vanished with the filing of the bankruptcy petition. This Court assured that the shareholders had adequate representation to determine the validity of that insolvency, and hence the legitimacy of the bankruptcy process that eliminated a return on their investments.

Having addressed the factors, the Cour summarizes them as follows: For the purposes of thi motion, the debtor is insolvent, and the cost of an equity committee will be significant. But of greate weight on balance are the following factors: Number of shareholders, the size of the case and the structure of the business of the debtor, the limitation of management shareholders to represent non-management shareholders, the pre-petition public disclosures and lack of disclosure, the apparent disappearance of shareholder value, the pre-petition management benefits, and the resulting integrity of the process. Those cumulatively compel the Court to conclude the shareholders need a committee to adequately represent them to assure the integrity an fairness of the process, and the legitimacy of the outcome of the case, which may include a validation that there is no return for equity. The Court

exercises discretion to impose the administrative costs of the estate of an equity committee. The Court, therefore, grants the motion without prejudice to a motion to disband the committee after they have had a reasonable time to assess the merits of the case.

And there we are. Mr. Mojdehi, if you would please prepare an order to that effect. I will note in passing I didn't address the examiner suggestion because after the suggestion had been made, no one actually asked the Court to go that route. And the Court having determined that from a shareholder advocacy point of view, there has to be an analysis of what happen to the apparent value of the company, and take that and advocate on behalf of the shareholders, I didn't explore the examiner suggestion in greater detail.

Mr. Mojdehi, if you would please prepare an order based on the bench ruling. I would ask the U.S. Trustee's office to act on this as soon as possible because the Court has no inclination to delay the process before the Court. Once the process has been established, we need to see how it plays out.

MR. MOJDEHI: Thank you very much, Your

Honor. I again thank you for allowing us to participate by phone. We will submit the order to Your Honor.

THE COURT: Okay. Thank you. And thank you all for being available so we can get that accomplished today.

MR. HALE: Judge Felsenthal?

THE COURT: Yeah.

MR. HALE: Would if be all right with you -- this is Cooter Hale -- if we simply get a transcript of your ruling and have that filed with the clerk's office as we circulate that as opposed tc putting that in the form of an order?

THE COURT: Yeah. I think all the order -- that's fine. All the order needs to do is say, Based on the bench ruling, the motion is granted.

MR. HALE: Thank you --

THE COURT: Okay. Thank you.

(End of Court's ruling)

C E R T I F I C A T E

I, DIANE M. DENNIS, Acting Official Court Reporte in and for the United States Bankruptcy Court for the Northern District of Texas, Dallas Division, certify that during the hearing of the above-entitled and numbered cause, I reported in shorthand the proceedings hereinafter set forth, and that the foregoing pages contain a full, true and correct transcript of said proceedings.

GIVEN UNDER MY HAND AND SEAL OF OFFICE on this the 24th day of September, 2001.

Diane M. Dennis, CSR, RPR

DIANE M. DENNIS
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Acting Official Court Reporter
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